

Joint SDG Fund – Component 2 – SDG Financing

Template for the Joint Programme Final Progress Report (preparatory funding)

Cover page

Reporting period: June 30 – December 30, 2020

Country: Mexico

Joint Programme (JP) title: Innovative financing scheme for climate resilience, gender equality and decent work in rural Southeast of Mexico.

Short title: SDG financing scheme in rural Mexico

List of PUNOs: International Labour Organization, ILO; United Nations Industrial Development Organization, UNIDO; World Meteorological Organization, WMO; International Fund for Agricultural Development, IFAD.

RC (name): Cristian Skoog, Resident Coordinator a.i. Mexico,

Representative of Lead PUNO (name and agency): Lina Dolores Pohl Alfaro, FAO

Government JP Focal Point (name and ministry/agency): Jesús Alan Elizondo/ General Director, Trust Funds for Rural Development, FIRA

RCO JP Focal Point (name): Francisco Garcia **E-mail:** francisco.garcia@one.un.org

Lead Agency JP Focal Point (name): Eduardo Benítez Paulín **E-mail:** Eduardo.benitez@fao.org

Budget (Joint SDG Fund contribution): USD 10,000,000

Budget Expenditures: USD 85,000

Delivery Rate - *Prep Funding Rate (%)* = $\frac{158110}{85,000}$

Short Description of the Joint Programme (1 paragraph for each section)

This description will be used to update your country page in our online platform (please scan the website before answering) <https://sdginvest.jointsdgfund.org/proposals>

Financial leverage (estimated target in US\$): 87, 600,000. Co-financing ratio. 1:8.8

The JP will promote financing for loans from financial intermediaries over the 4-year span in the amount of 54M USD through the Guarantee Fund, composed of existing resources (capital or raised) and direct funding from FIRA. Total investments will amount to 87.6M USD; pooling from private sector resources (financial intermediaries, producers and anchor companies) will total 37.9M USD. The leverage potential will continue through year five and beyond due to two main factors: the nature of the revolving guarantee fund that will maintain its value over time, and the nature of the capacity building efforts engrained in FIRA, financial intermediaries, producers and other important actors in the intervened value chains.

Challenge:

Explain the key challenge(s) the JP aims to tackle with reference to both development and financing challenges and how they interconnect.

Mexico is a country of contrasts: Mexico's financial structure has a significant number of solid public and private financial institutions, which up to date have had limited impact on SDGs achievement. However, there are large financially underserved segments, and it is worth noting that only 15% of the population has access to productive loans. In the rural sector, only 7% of adults have access to formal credit, and in the primary sector particularly, 56% of credit is obtained through non-formal financial sources.

The target implementation zone in the South-Southeast of this country has poverty indicators comparable to those of less developed countries. Furthermore, the financial system lacks a systematic approach to environmental risk assessment, and significant barriers persist in the access and use of financial services by women, youth, SMEs, smallholder producers and other vulnerable groups. These are groups that currently receive loans from microfinance institutions at rates of 60 to 75 % under onerous commercial conditions, such as weekly payments. High level of perceived risks, lack of guarantees or registered collaterals, high costs of financial services, and limited financial literacy are the main challenges faced.

Finally, there is financing for medium and large producers and companies, however, financial products and services still lack a focus on achieving the SDGs.

Innovation (financial instrument/mechanism/approach):

Summarize the financial mechanism(s) proposed and why the approach is different from conventional and/or alternative approaches and how it is fit for purpose to address the challenge described above.

The joint programme (JP) is to contribute to the transformation of development finance instruments by the integration of SDG criteria and achievement in the public and financial sectors (FIRA, Trust Funds for Agriculture Development finance institution, a second-tier financial institution is responsible for 65% of funding going to the agricultural sector), targeting the agroindustry sector in the Dairy -Bovine sector (the first two years) through: a) increasing access to finance for underserved rural segments (new borrowers) such as small producers, women, youth and cooperative organizations; b) strengthening capacity of main financial intermediaries that are part of FIRA's network and the existing portfolio of medium and large producers and established actors in the agro-industry value chain, to impact inclusive and gender-sensitive financing and SDG acceleration. Existing financial instruments will be transformed to unleash under-utilized liquidity in the Mexican development finance system and to create an enabling environment for sustainable productive practices; and c) the gender sensitive and decent job inclusive financing model, will be replicated in other agricultural value chains in the country, and could be shared to other transboundary regions.

The JP will directly contribute to the LNOB principle, by targeting the tropical dairy value chain in Chiapas, Tabasco and Veracruz which offers unique opportunities for direct interventions to close decent work deficits, the gender and demographic gaps in development financing while reducing the environmental impact of dairy producers, and to accelerate SDG achievement in a strategic sector that will reduce Mexico's dependence on imported milk.

SDG Impact:

Please describe the development impact the JP aims to achieve. Do not list the SDGs
The proposed impacts of the project during the implementation period is as follows:

- Regarding SDG 5 with the project we expect at least 1,200 new financed women headed productive units
- On SDG 8, will be increasing green jobs in intervened businesses by 5-10%.
- To contribute to SDG 9, the Businesses will have improved technologies to be more productive and sustainable. Milk production in Chiapas, Tabasco y Veracruz, will be increased by 10%.
- With respect to SDG 10, financial inclusion in rural Southern Mexico will be improved. In fact, there will be 3,000 new loans and 12 strengthened financial institutions.
- Through the project methane and CO² emissions from 38,000 cows and 50,000 hectares under sustainable grazing will be reduced to contribute to SDG 13.

Direct beneficiaries include 3,000 new borrowers from vulnerable rural groups with more than 50% of women, as well as 10 strengthened financial intermediaries and 12 new financial service providers applying SDG-approach practices and methodologies.

Partners:

Please list key partners involved in implementation as well as secured investors. Do not mention more than 4-5 partners. Do not mention generic stakeholders (e.g. Government, private sector), but only specific institutions/partners.

Stakeholders:

- Trust Funds for Rural Development (FIRA),
- National Institute for Social Economy (INAES),
- Secretary of Agriculture and Rural Development (Minister),
- National Women's Institute (INMUJERES),
- National development bank for social sector.

Investors

- Danone Latam,
- State Governments (Chiapas, Tabasco y Veracruz),
- Trust Funds for Rural Development (FIRA).

Final Progress Report (MAX 3 PAGES)

1.1. Progress achieved

Provide brief description of the project's developments, results and achievements during the preparatory phase including 1) financial vehicle design; 2) market assessment; 3) feasibility study; 4) pipeline assessment; 5) legal assessment; 6) investor mapping and matching; 7) others. Please list the names of strategic documents developed (if any)

1. A financial model was developed in collaboration with FIRA and INAES for the inclusion of small producers, SMEs, women and youth: this model combined financial and non-financial components. For the blended finance component, 5M USD of the SDG Fund resources, will be administered by FIRA with 3M USD to capitalize the blended mutual revolving guarantee fund, 1.6M USD will be used to complement FIRA's traditional technical assistance enhanced by adoption of SDG criteria, for sustainable increases in productivity during the 4-year JP implementation period. Finally, 0.4M will be used to complement the assessment needs for capacity building of the financial intermediaries. PUNOs will implement the non-financial component together with FIRA and INAES through a differentiated strategy of capacity building for institutions (FIRA, INAES, State governments), financial intermediaries (in addition to financial support above), agroindustry partners within the tropical dairy value chain and the target population of SMEs, SEOs and small producers with special emphasis on women, and youth.

SDG funding for the guarantee fund will be a critical innovation component, as it will mobilize 1:1 in-cash co-financing allowing FIRA to manage the higher risks posed by the target population, providing support for and to promote loans for sustainable projects that target women, youth, small dairy producers and SEOs. The fund will be housed within the existing fund FEGA (a guarantee fund to underwrite financial intermediaries' exposure to loan defaults, with coverage of 40%, 50% and up to 80%. FEGA is sustained by fees based on the default rate of each financial intermediary, and overall coverage is guaranteed up to USD 6 billion.

On-going negotiations with the Ministry of Agriculture and Rural Development (SADER) consider an additional instrument FONAGA¹, that directly covers small and medium producers with credit needs of less than 48,000 USD. It is guaranteed for approximately 1.38 billion USD/year. FONAGA would be evaluated for inclusion in the financing strategy following the first two years of operation of the FEGA pilot. The revolving guarantee mutual fund will operate sustainably beyond the 4 years of JP implementation. This is an opportunity to articulate a financial inclusion strategy, in which the SDG Fund will provide risk capital to reach currently underserved market segments through the guarantee fund with a three-tier system to administrate different risk levels.

2. During the preparatory phase, a diagnosis of the bovine milk value chain was also carried out, clarifying the problems and challenges faced by actors in each stage along the value chain.
3. A mapping of possible private investors was carried out, such as tractor companies, establishing links and agreements with these.
4. Strategic documents for the project include: *Gaps for the Financial Inclusion of Women and Youth; Diagnosis of the Bovine Milk Chain in the States of Chiapas, Tabasco and Veracruz; Recommendations to Strengthen FIRA's Financial Mechanisms: Special Fund for Technical Assistance and Agricultural Credits Guarantees, FEGA and the National Guarantee Fund, FONAGA; Innovative Financial Mechanism SDG Fund; Diagnostic Document of Social Banking.*

1.2. Challenges faced

Did the UNCT face any major challenges in the preparatory phase? Briefly explain the challenges, their impacts, and how you overcame those.

¹ FONAGA, is funded through financial pledges made by the Ministry of Agriculture (SADER) and its use is subject to on-going negotiations

- Unify visions around the services and tools of the agencies to establish a strategy to strengthen the capacities of the different actors (non-financial component). The main impact was the delay in this strategy.
- Define the scope of intervention of INAES in the Project, given that the institution faced a process of adjusting its function and budget. The main impact was the delay in defining the participation of INAES in the project.

Due to travel restrictions associated to the pandemic, it was not possible to visit the project's intervention territories (Chiapas, Tabasco and Veracruz) to carry out diagnoses and interviews. The consultants hired to develop the JP conducted interviews by telephone. FIRA shared information provided by its field staff.

- 1.3 Partnerships leveraged

Did you leverage new partnerships during the preparatory phase (e.g. government, private investors, IFIs, bilateral/multilateral banks, etc.)?

- Yes
 No

Provide in bullet points the main highlights on strategic partnerships and with whom.

- **Grupo Danone.** Pay-for-performance for specific targets, e.g. additional marginal payments to producers for reductions in methane and CO² emissions and performance payments on specific targets could also be targeted to promote youth and women employment within the organizations, or as fiscal incentives to those organizations that prioritize these key sectors (youth, women).
- **Nestle.** Contract farming with small producers and technology transfer to producers.
- **Wellbeing Bank.** They will be part of the technical committee of the guarantee fund and will be partners in the implementation, providing support for cooperative organizations as financial intermediaries.
- **INMUJERES.** They will be implementing partners in the field.

1.4. Co-funding mobilized

Did you secure additional funding or in kind support for the proposal during the preparatory phase?

- Yes
 No

If yes, please include amounts committed during the prep-phase.

Source of funding	Yes	No	Type? (\$ or in kind support)	Name of organization	Amount (USD)	Comments
Government	<input checked="" type="checkbox"/>	<input type="checkbox"/>	\$	State Governments,	4,6 million	
Donors/IFIs	<input type="checkbox"/>	<input checked="" type="checkbox"/>				
Private sector	<input checked="" type="checkbox"/>	<input type="checkbox"/>	\$ and in kind support	Financial intermediaries and Driving buyers (Danone, Nestlé)	2 million	
UN/PUNOs	<input checked="" type="checkbox"/>	<input type="checkbox"/>	In kind support	FAO, ILO, UNIDO, IFAD and WMO	2,184,176	
Other partners	<input checked="" type="checkbox"/>	<input type="checkbox"/>	In kind support	Producers	0,9 million	

1.5. Budget changes (if relevant)

If there were changes in the actual budget from the one shared as part of the Fund Transfer Request, please briefly justify these changes. Please, explain briefly:

Due to travel restrictions owed to the pandemic and to the administrative procedures to make transfers to counterparts, adjustments were made to the original budget shared with the Secretariat. Specifically the amount allocated to concept 1) staff and other personnel was increased from USD 35,135 to USD 52,419, to hire more consultants to support the design of the project document. The following table shows the modifications made to the budget.

UNDG BUDGET CATEGORIES	ORIGINAL BUDGET	NEW BUDGET	Difference
	TOTAL LEAD PUNO	TOTAL LEAD PUNO	
	Joint SDG Fund (USD)	Joint SDG Fund (USD)	
1. Staff and other personnel	35,135	52,419	(17,283)
2. Supplies, Commodities, Materials	2,482	1,577	905
3. Equipment, Vehicles, and Furniture (including Depreciation)	0	0	0
4. Contractual services	0	0	0
5. Travel	9,040	2,260	6,780
6. Transfers and Grants to Counterparts	16,440	9,100	7,340
			0
7. General Operating and other Direct Costs	16,342	14,084	2,258
Total Direct Costs	79,439	79,439	0
8. Indirect Support Costs (7%)	5,561	5,561	0
TOTAL Costs	85,000	85,000	0